

June 21, 2001

MEMORANDUM TO: William D. Travers  
Executive Director for Operations

FROM: Stephen D. Dingbaum/**RA**  
Assistant Inspector General for Audits

SUBJECT: MEMORANDUM REPORT: THE WORKFORCE PLANNING  
CONTRACT (OIG-01-A-12)

As part of the Office of the Inspector General's (OIG) review of the agency's workforce planning efforts, the audit team identified a series of events that warrant your attention. These events pertain to the strategic workforce planning contract<sup>1</sup> awarded to Arthur Andersen LLP. While the agency's actions appear to have met basic Federal contracting standards, they do not provide assurance that the Nuclear Regulatory Commission's (NRC) best interests are being protected. Individually, these events may not be cause for concern. However, taken together, they create the appearance that the contracting process has not met the spirit of Federal contracting standards and that contract costs are not being tightly controlled.

Specifically,

- , NRC awarded the original contract after a solicitation period of only 3 business days and its evaluation of the sole bidder's response.
- , The contractor's deliverable predicted a sizeable increase in contractor costs to complete the initial phase of the workforce planning effort.
- , Three months into the 18-month<sup>2</sup> contract, the contractor had billed for approximately 77 percent of the total contract value.
- , Four months into the contract, the contract amount increased from \$350,000 to \$651,000, and the period of performance decreased from 18 months to 9 months.

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<sup>1</sup>In this report, we refer to NRC's arrangement with Arthur Andersen as a contract. However, the arrangement is actually a delivery/task order under GSA contract GS-I5F-0056K.

<sup>2</sup>Unless noted otherwise, dollar amounts in this report have been rounded to the nearest thousand and timeframes are approximate to the nearest month.

## **BACKGROUND**

In October 2000, the NRC Chairman requested that, by the end of January 2001, the staff provide a plan to the Commission to assess and maintain the agency's scientific, engineering, and technical core competencies. The Chairman noted that maintaining technical competencies may be the biggest challenge confronting NRC.

To address this challenge, the Office of Human Resources (HR) was tasked to respond to the Chairman's memo. The HR project officer prepared a package, including a statement of work to procure consultant and implementation services and assistance with NRC's initiative to develop, pilot, and implement a strategic workforce planning program. On December 6, 2000, NRC's Division of Contracts and Property Management (DCPM) faxed the request for quote packets to three of the vendors listed under a human resources management schedule contract group of the General Services Administration's (GSA) Federal Supply Schedules. Only one vendor, Arthur Andersen, submitted a proposal. NRC awarded a contract to Arthur Andersen on December 18, 2000, with the period of performance lasting through June 30, 2002. The initial contract was for \$350,000 and included four tasks. The last three tasks were designated as optional.

## **RESULTS**

Federal contracting guidance requires the Government to employ adequate management controls throughout the contracting process. However, rapidly increasing contract costs and information in a contract deliverable predicting such an increase caused OIG to question whether the contract is in the best interest of NRC. Our concerns do not involve Arthur Andersen's technical capability to assist in NRC's workforce planning efforts, but rather the appearance of impropriety associated with this effort.

### **Federal Contracting Guidance**

Federal contracting regulations and other guidance require the Government to employ adequate management controls over its contracts. Some key principles are to (1) conduct the necessary up-front planning to facilitate sound business decisions, (2) promote full and open competition among eligible bidders, (3) provide sufficient oversight throughout the contracting process, and (4) conduct business in a manner above reproach. NRC's three main sources of contracting guidance are the Federal Acquisition Regulation (FAR), the NRC Acquisition Regulation (NRCAR), and NRC Management Directive (MD) and Handbook 11.1, *NRC Acquisition of Supplies and Services*.

The FAR directs agencies to follow specific practices intended to facilitate contract oversight and sound business decisions. Specifically, the FAR requires that agencies:

- , Perform acquisition planning, the process by which the efforts of all personnel responsible for an acquisition are coordinated and integrated through a comprehensive plan for fulfilling the agency's need in a timely manner and at a reasonable cost.

- , Prepare a comprehensive statement of work that accurately reflects the actual Government requirement and is adequate and appropriate to serve as a basis for solicitation and award.
- , Provide a reasonable time for prospective bidders to prepare and submit bids.

Furthermore, contracting guidance requires specific contract oversight practices. For example, the agency must prepare contract modifications in order to exercise contract options in the workforce planning contract.

The FAR applies when the Government orders services from GSA's Federal Supply Schedules. Contractors on GSA's Federal Supply Schedules have already met the general requirement for competition in order to get placed on the schedules. However, in accordance with FAR, GSA requires the ordering office to solicit quotes from three schedule contractors to ensure that the order represents the best value to meet the Government's needs. Selections must be made after agencies send their requests for quote to at least three schedule vendors and evaluate the responses received.

The FAR cautions against practices that could undermine the FAR's standard for conducting Government business in a manner above reproach. Specifically, the FAR states that agencies must minimize the opportunity for contractors to buy-in to a contract by submitting an offer below anticipated costs, expecting to increase the contract amount after award. The FAR also calls on agencies to employ "common sense, good judgment, and sound discretion" to recognize and prevent conflicts of interest. According to the FAR, "Transactions relating to the expenditure of public funds require the highest degree of public trust and an impeccable standard of conduct. The general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships."

### **NRC'S Contracting Activities**

Rapidly increasing contract costs, in conjunction with information in a contract deliverable predicting such an increase, caused OIG to question the contracting practices employed by NRC in engaging Arthur Andersen to assist the agency in conducting strategic workforce planning.

Approximately 1 month after HR was tasked to respond to the Chairman's memo, HR assigned a staff member to the job. With 2 months remaining to put together a response, HR decided that the best approach would be to hire a contractor to help develop and implement the plan.

The office moved quickly to enlist the services of a contractor from GSA's Federal Supply Schedules. The HR project officer prepared a statement of work for an anticipated period of performance through June 2002 because the project officer was not sure how long the work would take or how much it would cost. The statement of work provided specific requirements for Task 1, including deliverables and due dates; however, requirements for optional Tasks 2, 3, and 4 were less specific. The statement of work said these tasks would be further defined if NRC decided to exercise the options.

DCPM sent the solicitation to three GSA supply schedule vendors, allowing 3 working days for these potential bidders to develop and submit a response. Eight business days after the solicitation was issued, NRC awarded the \$350,000, 18-month contract to Arthur Andersen — the sole bidder. Task 1 of the contract required Arthur Andersen to provide three deliverables by March 28, 2001, for \$130,000.

One of Arthur Andersen's Task 1 deliverables was an action plan to respond to the Chairman's request. Arthur Andersen prepared the action plan and, according to HR officials, with edits, it became SECY-01-0012, "Action Plan for Maintaining Core Competence." This document, submitted to the Commission on January 31, 2001, included an estimate that it would cost NRC \$2.4 million in contractor costs to help carry out the action plan during fiscal years 2001 through 2005. It also estimated that the initial phase of the action plan would cost \$650,000<sup>3</sup> through September 30, 2001.

Early into the contract, costs began to escalate. By March — 3 months into the 18-month contract — Arthur Andersen had billed NRC for a total of \$269,000, or about 77 percent, of the total approved budget for the contract. The agency approved the Arthur Andersen invoices for payment, although the agency had not yet officially exercised its right to have the contractor perform optional Tasks 2, 3, or 4. As such, Task 1 appeared to be about \$139,000, or 107 percent, over budget. The HR project officer believed the tasks could be overlapping; however, Arthur Andersen did not specify the tasks for which it was billing on any of the three invoices submitted. Included with its third invoice, Arthur Andersen provided a billing summary covering four phases of the project, yet, the four phases do not clearly align with the four tasks in the contract.

On April 23, NRC approved a \$301,000 modification (Mod 1) to the contract, with a period of performance through September 30, 2001, thereby changing the original 18-month, \$350,000 contract to a 9-month contract for \$651,000 — an increase of 86 percent. Mod 1 exercised the options to perform Tasks 2, 3, and 4 of the original contract, and added money to each of the four original tasks.

The table on page 6 compares the original contract and the modified version. It shows that Arthur Andersen did not complete the original Task 1 within the allotted budget and the contract was modified to add money to complete the task. It also suggests that the agency did not adequately define Tasks 2, 3, and 4 as indicated by both (1) the intent expressed in the original statement of work to refine the tasks further if the options were to be exercised, and (2) the increased cost and refined definition for these tasks provided by Arthur Andersen in its technical proposal for Mod 1.

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<sup>3</sup>The contractor's original action plan deliverable estimated it would cost \$815,000 for a contractor to support implementation of the initial phase of the plan through August 31, 2001. According to DCPM and HR officials, HR did not accept the contractor's estimate or timeline, but determined that the effort should cost \$650,000 through September 30, 2001, and included this estimate in SECY-01-0012.

According to DCPM and HR officials, the agency envisioned that the workforce planning contract would need to be changed and wrote the contract to allow this outcome. However, OIG contends that this approach put the agency in a position where its ability to maintain adequate control over the contract cost was questionable. The issues OIG has raised in connection with the workforce planning contract are not new. As noted in MD 11.1,

*Over the years, both real and perceived problems have been identified in the area of service contracting. Some of the major problem areas, associated primarily with the use of contracting for consulting services, include lack of competition, the potential for conflicts of interest on the part of service contractors, and the failure of the agency to exercise adequate control over the contractor's performance.*

**Comparison of Original and Modified Contract — Tasks and Dollar Amounts<sup>4</sup>**

<b>Original Contract Task Description</b>	<b>Original Contract Amount</b>	<b>Mod 1 Task Description<sup>5</sup></b>	<b>Amount Added in Mod 1</b>	<b>Modified Contract Amount</b>
Task 1 — Develop and deliver a strategic workforce plan to support the NRC in acquiring, developing, deploying, and retaining the competencies needed to support the NRC mission <sup>6</sup>	\$129,798.00	Task 1 — Recommend workforce planning software	\$45,924.00	\$175,722.00
Task 2 — Optional; Implementation of NRC pilot workforce plan	\$150,040.00	Task 2 — Implement pilot NRC workforce plan	\$232,872.00	\$382,912.00
Task 3 — Optional; Refinement and further development of workforce plan and additional implementation services as requested by the NRC	\$36,328.00	Task 3 — Refine and further develop workforce plan and additional implementation services	\$10,920.00	\$47,248.00
Task 4 — Optional; Conduct additional workforce planning related assessments/analysis/services (as requested by the NRC)	\$33,768.00	Task 4 — Conduct additional workforce planning related assessments and analysis services	\$10,688.00	\$44,456.00
		Other direct costs	\$814.25	\$814.25
<b>Total</b>	<b>\$349,934.00</b>		<b>\$301,218.25</b>	<b>\$651,152.25</b>

<sup>4</sup>Dollar amounts are actual and have not been rounded.

<sup>5</sup>Source: Arthur Andersen's technical proposal for Mod 1.

<sup>6</sup>The final deliverable under the original Task 1 was a recommendation for workforce planning software. It was due March 28, 2001. Mod 1 changed the due date for the software recommendation to June 2001.

## **Cause and Effect**

Because the NRC did not adequately make use of existing management controls prior to and during the contracting process, the agency's actions have not met the spirit of Federal contracting guidance and do not provide assurance that the Government's best interests are being protected. From the start, this project has lacked the characteristics associated with good project management. Better planning and a solicitation process that allowed for comparison among vendors would have likely given HR a more accurate understanding of the cost, time, and scope of the workforce planning effort. Based on the chronology of events that have transpired with regard to this contract, NRC appears to be engaged in a contract that is vulnerable to continued cost escalation.

## **CONCLUSION**

A successful workforce planning program is important for maintaining the agency's safety mission. But at what cost? The responsibility for workforce planning is a critical agency function. Agency officials have not adequately controlled and defined the effort under this contract. Without the effective use of management controls, there is no assurance that the agency will maintain control of this program or that contract costs will be held to a reasonable level.

## **RECOMMENDATIONS**

OIG recommends that the Executive Director for Operations:

- 1) Establish a reasonable level of expenditure for the workforce planning contract that specifies the point at which NRC will compete additional work.
- 2) Develop and implement a plan to ensure more effective oversight for this and future contracts consistent with established management controls.

## **AGENCY COMMENTS**

At the exit meeting on May 21, 2001, OIG discussed the report's content with the agency and incorporated those views, as appropriate, in the report. On June 15, 2001, the agency formally responded with no comments on the draft report (Attachment A).

## **SCOPE/CONTRIBUTORS**

OIG evaluated the management controls related to the procurement and contracting activities regarding NRC's strategic workforce planning contract with Arthur Andersen. Auditors interviewed NRC staff members in the Office of Administration and HR. The audit team reviewed related documents, including the original workforce planning contract, the modification to the contract, and Arthur Andersen's invoices. Additionally, the audit team researched and reviewed Federal contracting guidance, including the FAR, NRCAR, and NRC MD and Handbook 11.1. This work was conducted from March through April 2001 in accordance with generally accepted Government auditing standards. The review was conducted by Ren Kelley, Team Leader; Sherri Miotla, Senior Management Analyst; and Judy Gordon, Senior Management Analyst.

Please provide information on actions taken or planned on each of the recommendations directed to your office by July 20, 2001. Actions taken or planned are subject to OIG followup. See Attachment B for instructions for responding to OIG report recommendations.

If you have any questions or concerns regarding this report, please contact Ren Kelley at 415-5977 or me at 415-5915.

Attachments:

Attachment A: Agency Comments

Attachment B: Instructions for Responding to OIG Report Recommendations





UNITED STATES  
NUCLEAR REGULATORY COMMISSION  
WASHINGTON, D.C. 20555-0801

June 15, 2001

MEMORANDUM TO: Stephen D. Dingbaum  
Assistant Inspector General for Audits  
Office of the Inspector General

FROM: Patricia G. Norry *Patricia G. Norry*  
Deputy Executive Director for Management Services

SUBJECT: DRAFT OIG MEMORANDUM REPORT ON THE WORKFORCE  
PLANNING CONTRACT

We have no comments on your draft audit report dated May 31, 2001, regarding NRC's workforce planning contract. We appreciate the opportunity to review the draft report.

## **Instructions for Responding to OIG Report Recommendations**

### **Instructions for Action Offices**

Action offices should provide a written response on each recommendation within 30 days of the date of the transmittal memorandum or letter accompanying the report. The concurrence or clearance of appropriate offices should be shown on the response. After the initial response, responses to subsequent OIG correspondence should be sent on a schedule agreed to with OIG.

Please ensure the response includes:

1. The report number and title, followed by each recommendation. List the recommendations by number, repeating its text verbatim.
2. A management decision for each recommendation indicating agreement or disagreement with the recommended action.
  - a. For agreement, include corrective actions taken or planned, and actual or target dates for completion.
  - b. For disagreement, include reasons for disagreement, and any alternative proposals for corrective action.
  - c. If questioned or unsupported costs are identified, state the amount that is determined to be disallowed and the plan to collect the disallowed funds.
  - d. If funds put to better use are identified, then state the amount that can be put to better use (if these amounts differ from OIG's, state the reasons).

### **OIG Evaluation of Responses**

If OIG concurs with a response to a recommendation, it will (1) note that a management decision has been made, (2) identify the recommendation as resolved, and (3) track the action office's implementation measures until final action is accomplished and the recommendation is closed.

If OIG does not concur with the action office's proposed corrective action, or if the action office fails to respond to a recommendation or rejects it, OIG will identify the recommendation as unresolved (no management decision). OIG will attempt to resolve the disagreement at the action office level. However, if OIG determines that an impasse has been reached, it will refer the matter for adjudication to the Chairman.

### **Semiannual Report to Congress**

In accordance with the Inspector General Act of 1978, as amended, OIG is required to report to Congress semiannually on April 1 and October 1 of each year, a summary of each OIG report issued for which no management decision was made during the previous 6-month period. Heads of agencies are required to report to Congress on significant recommendations from previous OIG reports where final action has not been taken for more than one year from the date of management decision, together with an explanation of delays.

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